Management Employees Pension Plan

1998
Annual Report

MEPP

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***Italicized* pension and investment terms are defined in the Glossary.**

Management Employees Pension Plan

A Profile

- The Management Employees Pension Plan was established in 1972 as a defined benefit plan for Alberta government employees in management positions.
- The Plan serves 3,593 *active members*, 867 *deferred members*, 1,048 *pensioners,* and 19 employers.
- The Plan is financed by member and employer contributions and investment earnings.
- Investment Management Division of Alberta Treasury manages the Fund, which has a diversified investment portfolio of *bonds*, domestic and foreign *equity*, money market securities, mortgages, and real estate.
- The Plan is administered by Alberta Pensions Administration (APA) Corporation.
- The net assets of the Fund available for benefits was $1.3 billion as at December 31, 1998.

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Message from the Chair

On behalf of the Management Employees Pension Board and the Provincial Treasurer, I am pleased to present the 1998 annual report to the pension plan's 3,593 *active members*, 867 *deferred members*, 1,048 *pensioners* and 19 employers. In May 1998, I assumed the Chair's role from Dianne Keefe, who continues to offer her leadership experience as our board's Vice-Chair.

Overall, our board focus is to ensure secure retirement benefits are provided for plan members. The Board advises the Provincial Treasurer on pension plan matters and makes recommendations on general policy guidelines for plan investment and administration.

With that focus in mind, we centred attention in 1998 on monitoring the Fund's investment performance and revising the Plan's current investment policy. As well, government restructuring continued to occupy our agenda.

Investment Performance

The Management Employees Pension Plan (MEPP) fund earned 8.8% on investments in 1998. This was above the 7.5% funding requirements of the Plan. However, it was below our *policy benchmark* of 11.2% as a result of under-performance of foreign equities. Notwithstanding this, foreign markets will be beneficial to the Plan in the long-term. Overall, the Fund grew from $1.2 billion as at December 31, 1997 to $1.3 billion a year later.

A more detailed discussion on the performance of the Fund is provided in the Investment Report section of this document.

Investment Policy

The policy is documented in the *Statement of Investment Policies and Goals*. The policy considers investment objectives, *asset mix*, permitted and constrained investments, as well as *benchmarks* and performance measures.

During 1998, based on an asset liability study conducted by the Board, the Board recommended to the Provincial Treasurer a new asset policy mix which:

- reduced the cash and short-term allocation from 3% to 2%;
- included a specific allocation for *real return bonds* to 5% of the portfolio (to be phased in over three years);
- eliminated the real estate allocation;
- increased the policy allocation of foreign equity from 16% to 25%; and
- increased the overall equity allocation to 55% from 50%, with a range of 40% to 70%.

Plan Valuation

The Board is required to conduct an actuarial valuation for funding purposes at least once every three years. A valuation compares the liability (the value of the benefits promised to members) against available assets. This determines the overall status of the Plan and the contribution rates required to fund future service.

The valuation is used to determine the funding status of the Plan and to set contribution rates required to pay for current service and to eliminate any *unfunded liability* on pre-1992 service. With information from the last valuation, conducted as at December 31, 1997, the Board recommended that contribution rates of 7% for employees and 8% for employers with 3.5% for additional contributions (2.75% employer and 0.75% employee), to eliminate the unfunded liability be maintained.

Because a full valuation was conducted at year-end 1997, the Board asked its actuary to conduct an extrapolation as at December 31, 1998. An extrapolation allows the Board to present its financial statements without incurring the time and costs of a full valuation.

The extrapolation showed the Fund has reached fully funded status with the elimination of its unfunded liability. As well, the extrapolation indicates a surplus of $42 million overall, as at December 31, 1998. Because of fully funded status, the Board will be consulting with the Provincial Treasurer for the next steps in the financial management of the Plan. The Canadian Institute of Chartered Accountants has proposed changes to the assumptions used in calculating valuations. It is anticipated that these changes, scheduled to come into effect in the year 2000, may result in higher liabilities for employers.

Message from the Chair

Government Restructuring

Alberta government restructuring continued to impact MEPP and its members. Two issues remain at the forefront of the Board's agenda. First, restructuring has resulted in the transfer of some employees from one public sector pension plan to another. However, pension entitlements are not equal among all pension plans, creating liabilities for the pension funds and lower benefits for some members. While the Board continues to address the issue with other pension boards and the Provincial Treasurer, it extended a grandfathering provision to December 31, 1999 to MEPP members affected by government restructuring.

The second issue concerns continued plan participation by some government agencies and commissions. During 1998 the Board received notification from Alberta Treasury Branches regarding its intention to leave MEPP effective January 1, 1999. Also, the Board received notification from the Workers' Compensation Board that it is considering alternatives to membership in MEPP. The Board continues to work with both organizations and the Provincial Treasurer regarding withdrawal regulations. It is the Board's position that agencies and commissions who wish to withdraw from MEPP should do so on an even-handed, cost-neutral basis.

Board Membership

During 1998 a number of membership changes occurred. Fred Barth, a PriceWaterhouse retiree, replaced Laird Willson as a government nominee, while Theresa Ostrum from Alberta Municipal Affairs replaced Peggy Hartman as an employee nominee. Shirley Howe of the Personnel Administration Office replaced Deborah Owram as the Public Service Commissioner nominee in a non-voting position. We recognize the substantial contributions of departing Board members, and welcome the input and dedication of new members.

The Board continues to use the services of Alberta Pensions Administration for administration of the Plan and the services of the Investment Management Division of Alberta Treasury for day-to-day fund management. We appreciate the professional support provided by both organizations.

Finally, the Board thanks the employers and members of MEPP for their participation and support. As we move through our agenda over the next year we will continue to welcome your advice and assistance.

Jack Phelps

Jack Phelps
Chair
Management Employees Pension Board

Management Employees Pension Board

Board Structure

The Management Employees Pension Board advises the Provincial Treasurer on all aspects of the management of the Plan. The Board has seven members, including three employee nominees, three government nominees, and one Public Service Commissioner nominee.

Board Responsibilities

The Board advises the Provincial Treasurer on policy guidelines for the investment and management of the Fund and the administration of the Plan. The Board is also responsible for:

- setting contribution rates to fully fund past and present service;
- arranging an actuarial valuation at least once every three years; and
- reviewing administration decisions and ensuring the Plan is effectively administered.

Board Members–1998

Employee Nominees

Jack Phelps*, **Chair**
Tony Morehen
Theresa Ostrum

Government Nominees

Dianne Keefe, **Vice-Chair**
Robert Algar
Fred Barth

Public Service Commissioner Nominee

Shirley Howe **(Non-voting)**

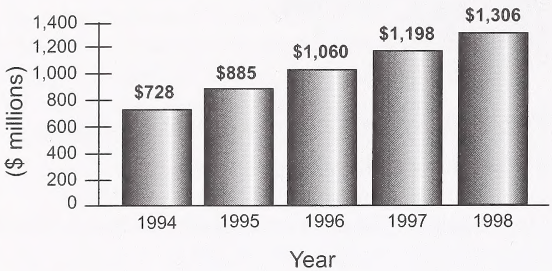
*Jack Phelps replaced Dianne Keefe as Chair in May 1998.

Investment Report

Fund Management

The investment assets of the Management Employees Pension Plan (the Plan) were $1,306 million as at December 31, 1998, up from $1,198 million a year earlier.

MEPP Market Value



The assets of the Plan are held in trust by the Provincial Treasurer and are invested solely for the benefit of the Plan's beneficiaries. The Plan's assets are invested taking into consideration the investment policies and guidelines of the Management Employees Pension Board. The day-to-day management of the Plan's assets is delegated to the Investment Management Division (IMD) of Alberta Treasury.

IMD currently manages approximately $33 billion in pension, endowment and specialty funds for the province. This allows for cost-effective management of plan assets. IMD has developed a "multi-product" approach that allows a board to customize its investment program based on *asset mix*, the use of *active* and *passive strategies*, and *manager structure*. IMD makes extensive use of *external managers* to manage specialized mandates, provide an additional level of diversification and integrate their market views on a total fund basis.

IMD is able to offer a wide range of products on a cost-effective basis. Overall fund management costs are around 10 basis points, well below the average for Canadian pension funds.

Investment Policies and Constraints

Investment policy is the responsibility of the Board and is documented in the *Statement of Investment Policies and Goals*. The statement includes the investment objectives, the asset mix policy, the permitted investments, the constraints in terms of quality and quantity of particular investments, the use of active and/or passive strategies, the *benchmarks* and the performance measures.

The Board approves the policies with input from IMD and other advisors. The Board attempts to set out a policy that will generate sufficient returns to meet the growth of the Plan's liability within a framework that is prudent and manages the investment risk. A major tool in the process is diversification. Within the Plan, care has been taken to ensure there is sufficient diversification in terms of asset mix, strategies, style and managers to minimize the short-term variability of returns. IMD makes decisions to vary the asset mix within the ranges specified by the Board reflecting IMD's market outlook.

During 1998, following an asset liability study conducted by the Board, the Board implemented a new asset mix policy which is compared in the following table.

Comparison of 1998 and 1999 Policy Mix (% of Market Value)

	Previous Board Policy Mix	New Benchmark Policy Mix	Previous Policy Range Min. - Max.	New Policy Range Min. - Max.
Fixed Income				
Cash & Short-term	3.0	2.00	0 - 20	0 - 20
Long-term				
Bonds	47.0	38.0	40 - 60	30 - 60
Real Return Bonds*		5.0		
Total	50.0	45.0	40 - 60	30 - 60
Equity				
Canadian Equity	30.0	30.0	20 - 40	20 - 40
Foreign Equity	16.0	25.0	10 - 24	20 - 30
Real Estate	4.0	0	0 - 8	
Total	50.0	55.0	40 - 60	40 - 70

* To be phased in by 2001.

The impact of these changes will be to enhance the long-run return potential of the Plan by increasing the overall allocation towards *equities*. The higher potential volatility was managed by increasing the foreign equity exposure. This would increase the overall equity diversification. Changes will increase the liquidity of the Plan by eliminating the allocation to real estate. *Real return bonds* provide a hedge against inflation and do not have the liquidity issue related to real estate.

Asset Mix (% of Fund)

	Actual Asset Mix	
	1998	1997
Fixed Income		
Cash & Short-term	0.3	1.0
Long-term	45.8	47.1
Total	46.1	48.1
Equity		
Canadian Equity	27.9	29.6
Foreign Equity	23.7	20.0
Real Estate	2.3	2.3
Total	53.9	51.9

The changes in the asset mix were introduced in 1998 and as the changes were made, the actual asset mix changed from the 1997 mix of 52% equity exposure to 54% and reduced the bond portfolio from 48% to 46%.

On an ongoing basis IMD will make decisions to vary the asset mix within the ranges specified by the Board reflecting IMD's market outlook.

Investment Performance

Measuring Performance

The Board is provided with quarterly reports on investment performance from IMD. The Board also reviews the Plan's investment performance with SEI Canada, an independent firm that specializes in evaluating fund performance and asset management consulting.

The Plan's performance is evaluated in a number of ways. The Plan's return is compared against:

- the discount rate used in the Plan's valuation;
- inflation;
- a policy benchmark return;
- other balanced fund managers; and
- individual asset classes are compared against established market benchmarks.

Total Fund Performance - Annual Returns

	1998 %	1997 %	1996 %	1995 %
Total Fund	**8.8**	**12.3**	**18.3**	**17.7**
Policy Benchmark Return	11.2	13.4	16.9	-
SEI Balanced Fund Manager Median	8.0	14.8	18.8	17.4
Consumer Price Index (CPI)	1.0	1.6	1.6	2.1

Investment Report

1998 Plan Investment Performance

The Plan earned an 8.8% return on investments in 1998. Over the past four years, the return was 14.2%. These returns are above the 7.5% funding requirements of the Plan. On both a short and longer-term basis, the investment experience has contributed to an improvement in the funded status of the Plan.

Compound Annualized Return Ending December 31, 1998

	1YR %	2YR %	3YR %	4YR %	8YR %
Total Fund	**8.8**	**10.5**	**13.1**	**14.2**	**12.4**
Policy Benchmark Return	11.2	12.3	13.8	-	-
SEI Balanced Fund Manager Return	8.0	11.4	13.6	14.4	12.7
Consumer Price Index (CPI)	1.0	0.9	1.3	1.4	1.7

All rates of return in this report are *time-weighted.*

The investment performance for the year was below the policy benchmark for the following reasons:

- under-performance of the foreign equity component impacted both the 1997 and 1998 returns;
- strategies that focus on the valuation of companies or on companies in the mid-to-small cap range have performed poorly;
- significant under-performance from the Fund's external managers, specifically in the global mandates;
- foreign equity exposure above the legislated 20% limit requires equity *swaps* translated in Canadian dollars, which can result in under-performance against an unhedged benchmark if the Canadian dollar falls in value against other currencies; and
- some under-performance within the Canadian equity component, which was partly related to the internal Canadian equity mandate and the Fund's exposure to small cap companies.

1998 Investment Strategy

The strategy in 1998 to be under-weighted in equities relative to bonds would have resulted in a small amount of under-performance as equities markets bounced back in the fourth quarter. However, IMD's decision to over-weight foreign equities relative to all other asset classes resulted in an overall positive result for asset allocation.

IMD continues to be concerned about valuation levels in several markets, especially given the potential for slower economic growth. IMD has maintained a cautious stance relative to the policy mix going into 1999.

Profile of Individual Asset Class

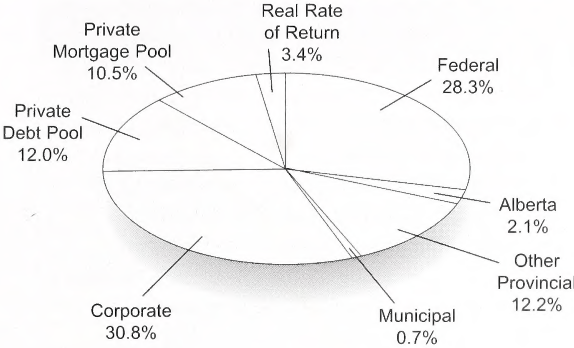
Short-term Investments

Short-term interest rates rose slightly over the year with the yield on 91-Day *T-Bills* rising from 4.0% to 4.7%. The return over the course of the year, as measured by the *Scotia Capital Markets 91-Day T-Bill Index*, was 4.7%, while the Plan's return on short term investments was 5.0%. The focus is on high quality marketable securities. The overall term to maturity will not exceed 180 days. At least 40% of the short term portfolio will be in government (federal and provincial) and government-guaranteed securities.

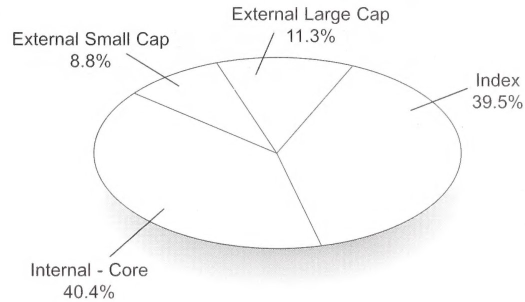
Long-term Fixed Income

Long-term interest rates declined from 5.6% to 4.9% during the course of the year. Total return for the Plan's long term fixed income component, including capital gains, was 9.2%, equal to the benchmark return of 9.2%. IMD invests across a wide range of fixed income products, including publicly traded bonds, mortgages, privately issued debt, and real return bonds. The public and private component returned 9.8% for the year; mortgages returned 8.8%; and real return bonds returned 6.0% for the year.

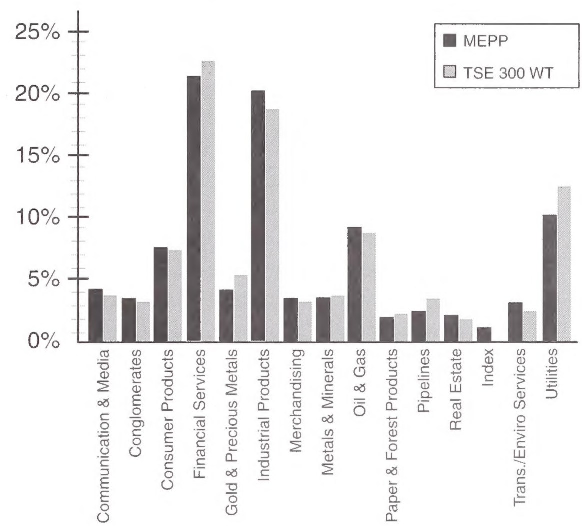
Summary of Bond Holdings



Management Structure in Canadian Equities



Industry Breakdown of Actively Managed Canadian Equity



Canadian Equity Component

The Canadian equity market returned -1.6% in 1998 as measured by the TSE 300 Index on a total return basis. The Plan's combined Canadian equity component, returned -4.0%. The under-performance can be attributed to under-performance of the internally managed Canadian Pooled Equities Fund in the first quarter of 1998 and the small cap component during the second half of the year. Performance did improve in the second half of the year with the Canadian equity component out-performing the TSE 300 Index by 1.5%.

As discussed earlier, the Canadian equity component was re-structured during the year. As indicated in the chart above right, the Canadian equity component is now organized into four discrete products including:

- an index product;
- an internally managed core product;
- an externally managed large cap product; and
- an externally managed small cap product.

This provides greater flexibility to customize the structure of the Plan's Canadian equity component and provides the ability to diversify by strategy (active versus passive), manager, style and capitalization.

Investment Report

IMD's Top 10 Canadian Equity Pool Holdings

Company	% of Pool Holding
BCE Inc.	4.6
Northern Telecom Ltd.	3.8
Royal Bank of Canada	3.3
Bank of Montreal	2.4
Canadian Imperial Bank Toronto	2.2
Toronto Dominion Bank	2.1
Bank of Nova Scotia	1.9
Barrick Gold Corp.	1.4
Seagram Company Ltd.	1.3
Imasco Ltd.	1.3

Foreign Equity Component

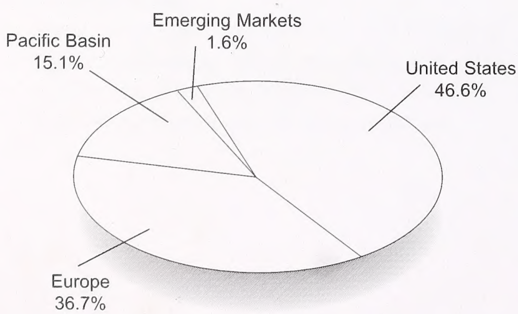
Returns in non-Canadian equity markets varied for the year. The U.S. market as measured by the S&P 500 Index returned 37.7% in Canadian dollars. Europe performed roughly the same, returning 38.0% based on the Morgan Stanley European Index. The Pacific region did 10.0% in Canadian dollars while Emerging Markets had a -19.9% return.

As indicated earlier, the foreign equity component was the most significant area of under-performance. This was attributable to two areas:

- U.S. market both in terms of the Plan's internally managed portfolio and the U.S. component of its global managers; and
- Canadian dollar exposure in the structured component.

Currently, nearly a third of the foreign equity exposure is through swaps, with approximately two-thirds on a hedged basis.

Distribution of Foreign Equity



The foreign equity exposure is broadly diversified across all markets. Relative to the policy benchmark (equally weighted between the U.S. and Europe and the Far East), the Fund has a slight under-weight in the U.S. offset by relatively modest over-weights in Europe, the Pacific Basin and emerging markets.

Investments in a number of asset classes are made through swap contracts. These contracts involve swapping the returns on underlying investments. For example, the return on a floating rate note may be swapped for a total return achieved by an equity market index. Swap contracts are an effective way of gaining exposure to a market return without having to transact in the underlying securities.

Extensive controls have been put in place to manage the use of swap contracts. These include:

- use of swap contracts must adhere to the overall investment policies of the Plan;
- all use of leverage must be avoided; and
- counter-parties in the contract must have at least an A+ credit rating at time of purchase.

IMD's Top 10 International Equity Pool Holdings

Company	% of Pool Holding
Novartis AG	1.8
Nestle SA	1.7
Glaxo Wellcome	1.4
Telecom Italia Spa	1.3
Nidec Corporation	1.3
Nippon Tel & Tel CP	1.3
Toshiba Corp.	1.3
British Telecom	1.1
AXA UAP	1.1
Nokia (AB) OY	1.0

IMD's Top 10 U.S. Equity Pool Holdings

Company	% of Pool Holding
Microsoft Corp.	3.4
General Electric	3.3
Cisco Systems Inc.	2.7
MCI Worldcom Inc.	2.5
Home Depot Inc.	2.5
Lucent Technologies Inc.	2.3
Merck & Co. Inc.	2.2
Pfizer Inc.	2.1
CitiGroup Inc.	2.0
Federal National Mortgage Assn.	1.8

Real Estate

This was the second strong year in a row for real estate. The *Russell Commercial Property Index* returned 16.1% while the Plan's real estate return was 12.8%. The under-performance was attributable to a difference in calculation between the benchmark and the Plan's investment return. The benchmark is calculated on a gross basis and excludes capital expenditure and transaction costs. The Plan's return is calculated on a net basis and includes all costs. If the Plan's return is calculated on the same basis, the return would have been 16.4%. In accordance with Board strategy, real estate holdings will be liquidated at the beginning of 1999.

S.J. Susinski
Chief Investment Officer
Investment Management Division
Alberta Treasury

Administration Report

Alberta Pensions Administration (APA) Corporation administers the Management Employees Pension Plan (MEPP) by:

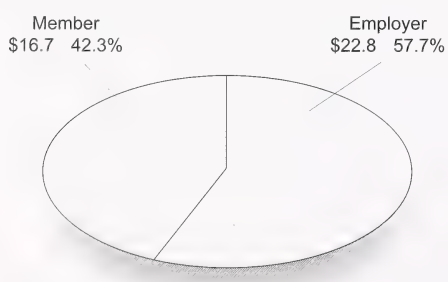
- collecting contributions;
- keeping accurate and secure records;
- paying benefits to pensioners and members who are leaving the Plan;
- providing plan information to members and employers; and
- supporting the activities of pension boards.

APA is one of the largest public sector plan administrators in Canada, administering eight statutory pension plans for five pension boards and the Government of Alberta. It is a provincial corporation guided by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. APA services are used by approximately 500 employers, 120,000 *active members* and 47,000 *pensioners*.

Pension Contributions

Contributions made to MEPP in 1998 totalled $39.5 million. This comprised $16.7 million from members, and $22.8 million from employers. The following chart shows the proportionate contributions made to the Plan. This total does not include revenue from fund investment.

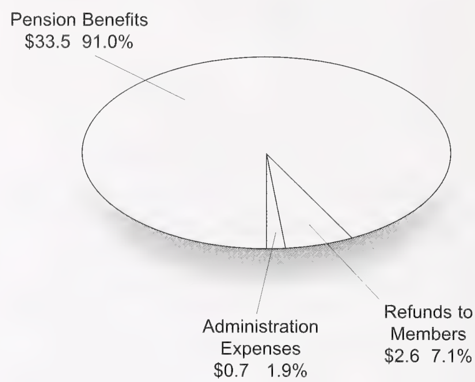
($ millions)



Pension Payments

Payments from the Plan in 1998 totalled $36.8 million. The breakdown of payments is as follows: pension benefits $33.5 million; refunds to members $2.6 million; and administration expenses $0.7 million. The following chart shows the proportionate distribution of payments from the Plan.

($ millions)



MEPP Administration Costs

In 1998, general administration costs, investment costs and actuarial fees totalled $659,000 or $124 per member. Of this amount, APA costs totalled $398,000 or $75 per member. This included a $12 per member cost which resulted from a change in the accounting treatment of the Business Process Reengineering costs.

MEPP Statistical Information

The following tables provide statistical information on plan participation and retirement levels for 1998. Statistics from 1997 are shown for comparison.

Participation

	1998	1997
Active Members	3,593	3,474
Deferred Members	867	808
Pensioners	1,048	893
Total	**5,508**	**5,175**

New Pensioners

	1998	1997
Retirements	158	164
Disability Retirements	0	1
Death Benefits to Spouses	4	2
Total	**162**	**167**

New Pensioner Retirement Choices

	1998	1997
Single Life	4	8
Normal	147	143
Joint Life	0	3
Guaranteed Terms	11	13
Total	**162**	**167**

Monthly Payment Distributions as at December 31, 1998

Dollar Value ($) Per Month	Member Pensions	Spouse's Pensions	Total
1 to 999	79	5	84
1,000 to 1,999	208	13	221
2,000 to 2,999	266	9	275
3,000 to 3,999	313	1	314
4,000 and over	154	0	154
Total	**1,020**	**28**	**1,048**

Three-Year Business Plan

A three-year business plan guides the annual operation of APA. In 1998 the corporation focused on three objectives:

- business transformation - how it conducts its business
- organizational transformation - how it is structured to carry out its business
- communications - how it informs its audiences about its business

Business Transformation

A multi-year Business Process Re-engineering project continued to play a lead role in APA's operation during 1998. The purpose of the Business Transformation Project is to analyze and implement the systems APA requires to meet the future needs of its customers. A number of significant project milestones were reached in 1998.

APA prepared to meet the future needs of its clients by:

- selecting PENFAX as its pension administration software package, which sets the stage for the replacement of APA's multi-platform systems with user-friendly, integrated pension administration software;
- increasing access to industry expertise by outsourcing its information technology to SHL Systemhouse;
- using the expertise of its employees, its customers, and its corporate suppliers to move its Business Transformation Project forward. Specifically, teams of APA employees helped increase productivity, and improved the processing of pension refunds and employee performance management;
- creating an Alberta Pensions Excellence (APEX) team to implement software installation, data conversion, and data reporting requirements; and
- initiating a Year 2000 Readiness project to help APA prepare data, processes, and systems for operation into the next century.

Administration Report

Organization Transformation

Hand-in-hand with business transformation, APA worked throughout 1998 to ensure its organization is structured to meet the existing and future needs of its clients. It established a vision and mission for the organization, along with values and guiding principles. APA's vision is to be the pension administrator of choice to Alberta Pension Boards.

In its move from a procedure-driven to a customer-focused organization, APA invested in a wide range of employee training opportunities throughout 1998, including Pension Plan Administration Certificate training. As well, a skills inventory was developed to target skill requirements for each individual employee.

An Organizational Readiness Team was formed to focus on a new performance management process, the development of a recognition program, and to provide support to corporate training requirements through communications change teams.

APA continued its move to an independent corporation by transferring its management, opted out and excluded employees from Alberta Treasury, effective January 1998. It began negotiations with the Alberta Union of Provincial Employees to transfer affected staff from Alberta Treasury. As well, APA sought proposals from insurance providers for new employee group benefits.

Communications

As part of its Business Transformation Project, APA implemented several external communications strategies to update employers on the progress of the project. It used focus groups to gather input from employers on new processes associated with the project. As well, it developed and implemented an employee communications strategy which included a one-on-one staff communications initiative and eight general staff meetings.

On a broader basis, APA continued to co-ordinate the design, production and distribution of the five annual reports and four highlights brochures for pension boards. It conducted 81 Employer Workshops, 100 Member Information Seminars, and 793 One-on-One Counselling sessions. In addition, APA produced pension Member Annual Statements for distribution by employers. To continually improve its communications products, APA used research techniques such as focus groups, surveys, and questionnaires to obtain input. As well, it explored and developed new communications vehicles such as Internet Web sites.

Performance Measurements

Each year APA participates in a nation-wide survey of public sector pension administrators known as the Quantitative Service Measurement (QSM). The survey, administered by Corden Consultants, compares APA's cost and service delivery times with those of other large pension administrators. The 1998 results showed APA continues to be one of the most cost-effective pension plan administrators of similar size. Service standards compare favourably with other QSM participants.

APA annually surveys employers to determine their level of satisfaction with APA services. The 1997 annual customer survey found more than 95% of 236 employers who responded to the survey were somewhat satisfied to very satisfied with services provided. 1998 results, when available, will be posted on APA's Web site (www.apaco.ab.ca).

APA reviews its performance by measuring achievements against pre-determined standards for major activities. Those activities which do not match established standards are reviewed and enhancements made to meet objectives.

Year 2000

The year 2000 computer issue is the result of some computer programs being written using two digits rather than four to define the applicable year. This could leave some computer systems unable to perform properly after the turn of the century. The problem was identified and has been dealt with by APA since 1996.

All APA application software, hardware platforms, owned and contracted hardware have been checked and areas of attention identified. Internal testing was conducted in 1998.

During 1999 APA will implement further changes to protect its system from problems associated with the year 2000. As APA has replaced its hardware and updated its software, the costs of implementation are not expected to have a material effect on the financial position or operations of the Plan.

Recognizing that APA is dependent on external systems for paying pensions, it has asked all employers who supply data as well as suppliers and other third parties to provide details of their preparations for the year 2000 issue. Notwithstanding these preparations, the year 2000 issue is complex and there can be no assurance that a third party could not have an adverse effect on APA.

Acknowledgements

APA wishes to acknowledge the support of MEPP employers throughout 1998. Employers are a critical link in the delivery of timely information and service to members. Their partnership made the cost-effective administration of the Management Employees Pension Plan possible.

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Management's Responsibility for Financial Reporting

The financial statements and information in the 1998 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration Corporation and have been approved by management and the Board.

The financial statements have been prepared in conformity with generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 1998 Annual Report that relates to the operations and financial position of the Management Employees Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Jack Phelps
Chair
Management Employees Pension Board

S.J. Susinski
Chief Investment Officer
Investment Management Division
Alberta Treasury

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Auditor's Report

To the Provincial Treasurer

I have audited the statement of net assets available for benefits and accrued benefits of the Management Employees Pension Plan as at December 31, 1998 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

Edmonton, Alberta
April 19, 1999

FCA
Auditor General

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED BENEFITS

As at December 31, 1998
($ thousands)

	1998	1997
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 1,305,852	$ 1,197,866
Accrued investment income	213	396
Contributions receivable (Note 6)	3,112	2,579
	1,309,177	1,200,841
Liabilities		
Accounts Payable (Note 7)	469	178
Net assets available for benefits	1,308,708	1,200,663
Actuarial asset fluctuation reserve [Note 2(c)]	(15,800)	(41,500)
Actuarial value of net assets available for benefits	1,292,908	1,159,163
Accrued Benefits		
Actuarial value of accrued benefits	1,250,853	1,165,653
Actuarial surplus (deficiency) (Note 10)	**$ 42,055**	**$ (6,490)**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 1998
($ thousands)

	1998	1997
Increase in assets		
Investment income (Note 8)	$ 105,296	$ 132,257
Contributions		
Current and past service		
Employers	17,000	15,321
Employees	15,175	14,116
Unfunded liability		
Employers	5,762	5,267
Employees	1,571	1,436
Transfers from other plans	34	24
	39,542	36,164
Total increase in assets	144,838	168,421
Decrease in assets		
Pension benefits	33,483	27,820
Refunds to members	2,651	2,680
Transfers to other plans	-	83
Administration expenses (Note 9)	659	578
Total decrease in assets	36,793	31,161
Increase in net assets for the year	108,045	137,260
Net assets available for benefits at beginning of year	1,200,663	1,063,403
Net assets available for benefits at end of year	**$ 1,308,708**	**$ 1,200,663**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN ACCRUED BENEFITS

For the year ended December 31, 1998
($ thousands)

	1998			1997
	Pre-1992	Post-1991	Total	Total
Increase in accrued benefits				
Interest accrued on benefits	$ 68,400	$ 21,600	$ 90,000	$ 80,500
Benefits earned	-	32,200	32,200	32,800
Net experience losses	-	-	-	11,400
Increase in accrued benefits	68,400	53,800	122,200	124,700
Decrease in accrued benefits				
Net benefits paid	31,100	5,900	37,000	24,900
Decrease in accrued benefits	31,100	5,900	37,000	24,900
Net increase in accrued benefits	37,300	47,900	85,200	99,800
Accrued benefits at beginning of year	910,171	255,482	1,165,653	1,065,853
Accrued benefits at end of year (Note 10)	**$ 947,471**	**$ 303,382**	**$1,250,853**	**$1,165,653**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN ACTUARIAL SURPLUS

For the year ended December 31, 1998
($ thousands)

	1998			1997
	Pre-1992	Post-1991	Total	Total
Actuarial surplus (deficiency) at beginning of year	$ (26,708)	$ 20,218	$ (6,490)	$ (86,550)
Net increase in net assets available for benefits	56,637	51,408	108,045	137,260
Net decrease in actuarial asset fluctuation reserve	20,700	5,000	25,700	42,600
Net increase in accrued benefits	(37,300)	(47,900)	(85,200)	(99,800)
Actuarial surplus (deficiency) at end of year	**$ 13,329**	**$ 28,726**	**$ 42,055**	**$ (6,490)**

See accompanying notes and schedules.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1998

Note 1 Summary Description of the Plan

The following description of the Management Employees Pension Plan is a summary only. For a complete description of the plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 367/93.

(a) General

The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 continue as members of this plan.

(b) Funding

Current service costs are funded by employer and employee contributions at rates which are expected to provide for all benefits payable under the plan. The rates in effect at December 31, 1998 are 8.0% of pensionable salary for employers and 7.0% for employees. The rates are to be reviewed at least once every three years by Alberta Treasury based on recommendations of the plan's actuary.

The unfunded liability for service prior to January 1, 1992 as determined by actuarial valuation is financed by additional contributions from employers and employees. The rates are set so that additional contributions will eliminate the unfunded liability on or before December 31, 2043. Transitional rates based on the pensionable salary are 2.75% for employers and 0.75% for employees.

(c) Retirement Benefits

The plan provides for a pension of 2.0% based on the average salary of the highest five consecutive years for each year of pensionable service. The maximum pensionable service allowable under the plan is 35 years.

Note 1 Summary Description of the Plan (continued)

(c) Retirement Benefits (continued)

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse, or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a refund or a deferred pension. A refund is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. Refunds are subject to the plan's lock-in provisions.

Note 1 Summary Description of the Plan (continued)

(g) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

(h) Prior Service and Transfers

All prior service purchases are to be cost-neutral to the plan.

All existing reciprocal agreements were terminated in 1994. New reciprocal agreements were or are being renegotiated to provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(j) Income Taxes

The plan is a registered pension plan as defined in the *Income Tax Act*. The plan's registration number is 0570887.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with generally accepted accounting principles. The statements provide information about the net assets available in the plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the plan for the year. They do not reflect the funding requirements of the plan or the benefit security of individual participants.

The majority of plan investments are held in pooled investment funds established and administered by Alberta Treasury. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The plan's respective percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	1998	1997
Canadian Dollar Public Bond Pool	6.2	6.6
Canadian Pooled Equities Fund	8.4	8.6
Domestic Passive Equity Pooled Fund	7.6	-
External Managers Fund	6.2	6.7
Global Structured Equity Pooled Fund	6.0	6.0
Private Bond Pool	6.9	7.9
Private Equity Pool	7.8	8.2
Private Mortgage Pool	6.7	5.9
Private Real Estate Pool	5.3	6.1
Transition Account	9.9	-
United States Pooled Equities Fund	6.3	6.7
US Passive Equity Pooled Fund	6.3	-

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the plan or by pooled investment funds are explained in the following paragraphs.

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

The fair value of private equities is estimated by management.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net unrealized gains and losses are amortized equally over three years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At the year-end the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Derivative Financial Instruments

Income and expense on index swaps and interest rate swaps are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 Investments (Schedules A to D)

Investments are summarized as follows:

	1998		1997	
	($ thousands)	%	($ thousands)	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 4,043	0.3	$ 12,449	1.0
Fixed Income Securities				
Canadian Dollar Public Bond Pool (Schedule A)	515,657	39.5	463,197	38.7
Private Mortgage Pool (b)	61,645	4.7	46,540	3.9
Real Rate of Return Bonds (c)	20,191	1.6	19,753	1.7
Private Bond Pool	112	-	33,736	2.8
Total deposit and fixed income securities	601,648	46.1	575,675	48.1
Canadian Equities				
Canadian Pooled Equities Fund (Schedule B)	147,560	11.3	316,413	26.4
Transition Account and miscellaneous	114	-	-	-
Domestic Passive Equity Pooled Fund (Schedule C)	144,180	11.0	-	-
External Managers Fund (Canadian) (Schedule D)	65,728	5.0	28,588	2.4
Private Equity Pool (d)	7,450	0.6	9,950	0.8
Total Canadian Equities	365,032	27.9	354,951	29.6
Foreign Equities				
External Managers Fund (Global) (Schedule D)	151,672	11.6	119,592	10.0
Global Structured Equity Pooled Fund (e)	81,187	6.2	49,948	4.2
US Passive Equity Pooled Fund (f)	38,068	2.9	-	-
External Managers Fund (United States) (Schedule D)	37,609	2.9	26,348	2.2
United States Pooled Equities Fund	1,007	0.1	43,463	3.6
	309,543	23.7	239,351	20.0
Equities in Real Estate				
Private Real Estate Pool (g)	29,629	2.3	27,889	2.3
Total equities	704,204	53.9	622,191	51.9
Total investments	**$ 1,305,852**	**100.0**	**$ 1,197,866**	**100.0**

Note 3 Investments (Schedules A to D) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded bond market over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. The pool does not invest in mortgages on single family houses, hotels, motels, trailer parks or recreational properties. As at December 31, 1998, mortgages held by the pool have an average effective yield of 6.92% per annum based on market (1997: 7.64%). Approximately 90% of the mortgages held will mature within ten years (1997: 91%).

(c) Bonds are issued or guaranteed by the Government of Canada, bear interest at a fixed rate adjusted for inflation, and have terms to maturity of over 20 years.

(d) The Private Equity Pool is managed with the objective of providing investment returns higher than attainable from publicly traded equity indices such as the Toronto Stock Exchange 300 Index over the long term. The portfolio is comprised of equity investments in companies that show higher than average growth potential. Risk is reduced by avoiding direct investments in start-up and venture capital situations and by limiting holdings in any single company.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 Investments (Schedules A to D) (continued)

(e) The Global Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International World Index. The pooled fund provides exposure to global markets through the use of structured investments such as foreign equity index swaps and interest rate swaps. All payments and receipts relating to swaps are in Canadian dollars. Participation in the pooled fund qualifies as a Canadian investment under the *Income Tax Act*.

(f) The US Passive Equity Pooled Fund is managed with the objective of attaining investment returns comparable to Standard & Poor's (S&P) 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the pooled fund also invests in futures, swaps and other structured investments.

(g) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The plan's investments in the pool were sold for $29.6 million in January 1999.

Note 4 Investment Risk Management

Actuarial liabilities of the plan are primarily affected by the long-term real rate of return on investments. Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn the best possible return at an acceptable level of risk, the board has established a policy asset mix of 40% to 60% fixed income instruments and 40% to 60% equities. Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Borrowing or leveraging is not allowed with the exception of pre-existing mortgages on real estate properties. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5 Index Swaps, Interest Rate Swaps and Foreign Exchange Contracts

Pooled funds use index and interest rate swaps to enhance return and for hedging risks. A swap is a contractual agreement between two parties to exchange a series of cash flows based on a notional amount and does not involve the exchange of the underlying principal. An index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional value. There are underlying securities supporting all swaps. Leveraging is not allowed.

The following is a summary of the plan's proportionate share of the notional value of index and interest rate swaps held or issued by pooled funds at December 31, 1998.

	1998	1997
	($ thousands)	
Index swaps		
Foreign equities		
Global Structured Equity Pooled Fund	$ 75,766	$ 39,332
US Passive Equity Pooled Fund	38,081	-
Canadian equities - Domestic Passive Equity Pooled Fund	58,534	-
Bonds - Canadian Dollar Public Bond Pool	94,390	63,770
Interest rate swaps		
Fixed to floating		
Canadian Dollar Public Bond Pool	63,255	26,196
Domestic Passive Equity Pooled Fund	39,939	-
Global Structured Equity Pooled Fund	50,654	33,541
US Passive Equity Pooled Fund	3,545	-
	$ 424,164	**$ 162,839**

Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future. As at December 31, 1998, the plan's proportionate share of outstanding forward foreign exchange contracts issued by the External Managers Fund amounted to $29,204,000 (1997: $24,603,000).

Note 6 Contributions Receivable

	1998	1997
	($ thousands)	
Employers	$ 1,803	$ 1,473
Employees	1,309	1,106
	$ 3,112	**$ 2,579**

Note 7 Accounts Payable

	1998	1997
	($ thousands)	
Benefits	$ 16	$ 15
Refunds and transfers	320	90
Administration expenses	133	73
	$ 469	**$ 178**

Note 8 Investment Income

	1998			1997
	Income[a]	Change in Fair Value	Total	Total
	($ thousands)			
Deposits and Fixed Income Securities:				
Deposit in the Consolidated Cash Investment Trust Fund	$ 646	$ -	$ 646	$ 1,013
Canadian Dollar Public Bond Pool	30,978	10,434	41,412	39,387
Private Mortgage Pool	4,887	654	5,541	3,480
Real Rate of Return Bonds	999	516	1,515	885
Private Bond Pool	2,883	-	2,883	1,289
	40,393	11,604	51,997	46,054
Equities:				
Canadian Pooled Equities Fund	3,798	(9,211)	(5,413)	40,927
Transition Account and miscellaneous	2,831	15,097	17,928	-
Domestic Passive Equity Pooled Fund	(4,675)	(17,663)	(22,338)	-
External Managers Fund (Canadian)	387	(582)	(195)	5,273
Private Equity Pool	139	(213)	(74)	728
External Managers Fund (Global)	2,068	29,542	31,610	6,651
Global Structured Equity Pooled Fund	11,271	(31)	11,240	8,975
US Passive Equity Pooled Fund	5,878	2,258	8,136	-
External Managers Fund (United States)	225	10,367	10,592	7,930
United States Pooled Equities Fund	2	(1,640)	(1,638)	10,958
Private Real Estate Pool	1,391	2,060	3,451	4,761
	23,315	29,984	53,299	86,203
	$ 63,708	**$ 41,588**	**$ 105,296**	**$132,257**

(a) Income is comprised of dividends, interest, and rental income.

Note 9 Administration Expenses

	1998	1997
	($ thousands)	
General administration costs	$ 438	$ 370
Investment management costs	219	164
Actuarial fees	2	44
	$ 659	**$ 578**

General administration costs including board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Treasury and do not include custodial and external management fees, which have been deducted in arriving at investment income.

In 1998, total administration costs of $659,000 amounted to $124 per member (1997: $114 per member). The $10 per member cost increase in 1998 is attributed to the following factors: changes in the accounting treatment of business process reengineering cost $12, increase in investment management cost $9, and decrease in plan specific cost ($11).

Note 10 Accrued Benefits

a) Actuarial Valuation

An actuarial valuation of the plan was carried out as at December 31, 1997 by William M. Mercer Limited and then extrapolated to December 31, 1998. The December 31, 1997 valuation resulted in an actuarial deficiency of $6.5 million as disclosed in the statement of net assets available for benefits and accrued benefits.

The valuation was determined as at December 31, 1997 using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the plan's actuary, approved by the Management Employees Pension Board.

Note 10 Accrued Benefits (continued)

The major assumptions used were:

	December 31	
	1998 Extrapolation	1997 Valuation
	%	%
Asset real rate of return	4.0	4.0
Inflation rate (after phasing-in)	3.5	3.5
Investment rate of return	7.5	7.5
Salary escalation rate (after phasing-in) Disclosed rate plus merit and promotion	3.5	3.5
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service recognized as pensionable as at December 31, 1991. The following table summarizes the accrued benefits, actuarial value of net assets and the resulting actuarial surplus or deficiency at December 31, 1998:

	1998			1997
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Fair value of net assets	$ 972,800	$ 335,908	$ 1,308,708	$ 1,200,663
Actuarial asset fluctuation reserve	(12,000)	(3,800)	(15,800)	(41,500)
Actuarial value of net assets	960,800	332,108	1,292,908	1,159,163
Accrued pension benefits	947,471	303,382	1,250,853	1,165,653
Actuarial surplus	**$ 13,329**	**$ 28,726**	**$ 42,055**	**$ (6,490)**

Note 10 Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

As at December 31, 1998, holding the nominal investment return and salary escalation assumptions constant, a 1% increase in the assumed long-term inflation rate would result in actuarial surplus of the plan changing from a surplus of $42.1 million to a deficiency of $55.8 million.

As at December 31, 1998, holding the inflation and nominal investment return assumptions constant, a 1% increase in the assumed salary escalation would result in the actuarial surplus of the plan decreasing from $42.1 million to $10.1 million.

As at December 31, 1998, holding the inflation rate and salary escalation assumptions constant, a 1% decrease in the assumed long-term investment return would result in a change in the actuarial surplus of the plan from $42.1 million to a deficiency of $163.7 million.

Note 11 Budget Information

The accrued benefits are based on the Management Employees Pension Board's best estimates of future events. Differences between actual results and the board's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some operations. Despite efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the plan, including those related to the efforts of suppliers and other third parties, will be fully resolved.

Note 13 Subsequent Event

Subsequent to year-end, the board has authorized an actuarial valuation of the plan to be carried out as at December 31, 1998 to facilitate the withdrawal of all active members of Alberta Treasury Branches from the plan effective January 1, 1999. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plan and will be accounted for as gains or losses in 1999.

Note 14 Comparative Figures

Comparative figures have been restated to be consistent with the 1998 presentation.

Note 15 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Management Employees Pension Board.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN CANADIAN DOLLAR PUBLIC BOND POOL (a) (b)

As at December 31, 1998
($ thousands)

	1998	1997
	Plan's Share	
Deposit in the Consolidated Cash Investment Trust Fund	$ 2,926	$ 6,309
Public Fixed Income Securities		
Government of Canada direct and guaranteed	166,815	182,339
Provincial:		
Alberta, direct and guaranteed	12,213	17,182
Other, direct and guaranteed	72,221	73,044
Municipal	4,009	5,769
Corporate	181,645	173,750
Private Fixed Income Securities		
Corporate	70,972	-
Total deposit and fixed income securities	510,801	458,393
Receivable from sale of investments and accrued investment income	6,936	5,788
Liabilities for investment purchases	(2,080)	(985)
	4,856	4,804
	$ 515,657	**$ 463,197**

SCHEDULE A

SCHEDULE OF INVESTMENTS IN CANADIAN DOLLAR PUBLIC BOND POOL (a) (b)

(continued)

(a) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Market Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(b) Fixed income securities had an average effective current yield of 5.44% per annum based on market (1997: 5.53% per annum). The following term structure of these securities as at December 31, 1998 is based on par value:

	1998	**1997**
	%	
under 1 year	11	6
1 to 5 years	36	40
5 to 10 years	26	23
10 to 20 years	18	16
over 20 years	9	15
	100	**100**

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN POOLED EQUITIES FUND (a)

As at December 31, 1998
($ thousands)

	1998	1997
	Plan's Share	
Deposit in the Consolidated Cash Investment Trust Fund	$ 613	$ 12,168
Canadian Public Equities (b):		
Common shares and rights:		
Communications and media	5,368	9,459
Conglomerates	7,044	14,613
Consumer products	10,215	11,234
Financial services	34,262	65,112
Gold and precious minerals	6,764	11,672
Industrial products	26,985	52,281
Merchandising	3,281	9,680
Metals and minerals	5,955	16,319
Oil and gas	12,400	50,682
Paper and forest products	3,201	9,072
Pipelines	4,183	6,727
Real estate and construction	3,475	5,320
Transportation and environmental services	5,190	13,651
Utilities	17,365	26,242
	145,688	302,063
Passive index	725	1,233
Options and other	-	98
	146,413	303,394
Receivable from sale of investments and accrued investment income	2,012	1,588
Liabilities for investment purchases	(1,478)	(737)
	534	851
	$ 147,560	**$ 316,413**

SCHEDULE B
SCHEDULE OF INVESTMENTS IN CANADIAN POOLED EQUITIES FUND (a)
(continued)

(a) The Canadian Pooled Equities Fund (CPE) is managed with the objective of providing returns higher than the total return of the Toronto Stock Exchange 300 Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation. During the year, a portion of the plan's investments held by the CPE was transferred to the Domestic Passive Equity Pooled Fund through the Transition Account.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN DOMESTIC PASSIVE EQUITY POOLED FUND (a)

As at December 31, 1998
($ thousands)

		Plan's Share
Deposit in the Consolidated Cash Investment Trust Fund	$	2,618
Short-term Securities		983
Floating Rate Note Pool		44,351
		47,952
Canadian Public Equities (b):		
Common shares and rights:		
Communications and media		4,503
Conglomerates		2,965
Consumer products		6,031
Financial services		17,752
Gold and precious minerals		4,486
Industrial products		16,002
Merchandising		3,301
Metals and minerals		2,877
Oil and gas		7,704
Paper and forest products		2,221
Pipelines		2,578
Real estate and construction		1,922
Transportation and environmental services		2,033
Utilities		10,361
		84,736
Domestic Structured Equity Pooled Fund		9,233
United States Public Equities		193
Receivable from sale of investments and accrued investment income		2,780
Liabilities for investment purchases		(714)
		2,066
	$	**144,180**

SCHEDULE C

SCHEDULE OF INVESTMENTS IN DOMESTIC PASSIVE EQUITY POOLED FUND (a)

(continued)

(a) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSE 300 Index. To enhance investment returns with no substantial increase in risks, the pooled fund invests in the Domestic Structured Equity Pooled Fund (DSEP) and the Floating Rate Note Pool (FRNP) which are pooled investment funds established and administered by Alberta Treasury. DSEP replicates the TSE 100 Index with index-based securities and structured investments such as index swaps and interest rate swaps. It provides returns comparable to the TSE 100 Index. FRNP is managed with the objective of providing a reinvestment vehicle for participants with structured investments in equities and bonds. Through the use of structured investments such as interest rate swaps, FRNP provides investment opportunities in high quality floating rate instruments with remaining term-to-maturity of ten years or less.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

SCHEDULE D

SCHEDULE OF INVESTMENTS IN EXTERNAL MANAGERS FUND (a)

As at December 31, 1998
($ thousands)

	1998	1997
	Plan's Share	
Foreign Public Equity Pools		
Multi Region	$ 67,323	$ 74,036
Europe	52,592	20,567
Pacific Basin	28,792	24,989
Emerging markets	2,965	-
	151,672	119,592
United States	37,609	26,348
Canadian Public Equity Pools		
Large Cap	41,159	-
Small Cap	24,569	28,588
	65,728	28,588
	$ 255,009	**$ 174,528**

(a) The External Managers Fund is managed by external managers with expertise in global and Canadian equity markets. The objective of the fund is to provide investment returns higher than the total return of the applicable Morgan Stanley Capital International, Standard & Poor and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager, style and market diversification.

Glossary

TERMS

Active member
A member who is making contributions or, if not making contributions, is on non-contributory leave for up to three years, on approved disability leave, or at the point of maximum pensionable service (35 years).

Active strategies
These strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 Index for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Asset mix
The percentage of a plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Benchmark
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond
A promissory note issued by a company or government which bears a fixed maturity date and rate of return.

Deferred member
A member who is no longer employed by a plan employer, has left his/her contributions in the Plan, and has yet to choose a pension option.

Emerging market
An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece, and Brazil.

Equity
Stock; the ownership interest in a company.

External manager
A third-party firm contracted to provide investment management services.

Guaranteed Terms - Pension Option
A guaranteed pension is paid for the member's lifetime. If the member dies before the end of the guaranteed period, payments will continue to the designated beneficiary(ies) or estate for the rest of that period.

Interest rate sensitive equity
Equity whose return is expected to react to changes in interest rates.

Joint Life - Pension Option
Pension is payable for the joint lives of the member and the member's nominee (usually the spouse). Upon the death of the member or the nominee, payments continue to the survivor for his or her life. Payments to the survivor may be lower than the original payment, depending on the member's choice at retirement.

Large Cap
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager structure
Manager structure refers to the number and mandates given to a Plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Normal - Pension Option
Pension is paid for member's lifetime. If the member dies before the member's spouse, a reduced pension is paid to the spouse for as long as he or she lives.

Passive equity
Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Passive strategies
These strategies involve investing to replicate the performance of a given market index such as the TSE 300 Index for Canadian stocks or managing asset class exposure to match the performance of an established policy asset mix such as 50% TSE 300 Index and 50% Scotia Capital Markets Bond Universe Index.

Pensioner
A member, surviving spouse, or beneficiary who is receiving a pension from the Plan.

Policy benchmark
A benchmark return for the Fund which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Real return bond
A fixed-income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return.
Related terms: The real interest rate is the nominal (set) interest rate minus inflation. The real rate of return is the return achieved by an asset after adjustments for inflation.

Single Life - Pension Option
Pension is paid for member's lifetime but no payments are made to a beneficiary or estate after the pensioner's death. This option is only available when there is no spouse or the spouse waived rights.

Small Cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Statement of Investment Policies and Goals
A policy document set by the Board to establish the asset mix of the Fund, the manner by which Investment Management Division may invest assets and the specific holding limits for each type of security.

Swap
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted return
A method of considering period-by-period returns without considering cash contributions to, and cash withdrawals from, the Fund. Time-weighted returns do not reflect the effect that cash flow has on the Fund's return.

Total return
Measures income (dividend, cash, interest and accrued interest) and capital appreciation (or capital depreciation).

Unfunded liability
An unfunded liability exists when the actuarial valuation determines that the Fund's accrued liabilities exceed the net assets available for the payment of benefits.

INDICES

Consumer Price Index (CPI)
Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Morgan Stanley Capital International World Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

Russell Commercial Property Index
Measures the total return attributable to Canadian commercial real estate. Maintained by Frank Russell, the index is compiled and reported every three months.

Scotia Capital Markets Bond Universe Index
Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal, and Corporate), by quality (AAA, AA, A, and BBB), and term (short-, mid-, and long-).

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-Day T-Bills. Maintained by ScotiaMcLeod.

SEI Balanced Fund Manager Return
A reference point for measuring Investment Management Division's performance. SEI Canada Financial Service Limited conducts surveys of balanced fund managers on a quarterly basis to create the SEI Universe. From this, SEI Canada determines the median (or middle-ranked) manager.
Related Terms: SEI (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks, and common stocks designed to conserve the investor's initial principal, pay current income, and achieve long-term growth.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

TSE 300 Index
Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

Directory–1999

Board Members–1999

Employee Nominees

Jack Phelps, **Chair**
Tony Morehen
Theresa Ostrum

Government Nominees

Dianne Keefe, **Vice-Chair**
Robert Algar
Fred Barth

Public Service Commissioner Nominee

Shirley Howe, (Non-voting)

Contact Board Members at:

Management Employees Pension Board

3rd Floor, Park Plaza
10611–98 Avenue
Edmonton, Alberta
T5K 2P7

Phone:	(780) 427-2782
Fax:	(780) 427-1621
In Alberta, call toll-free:	1-800-661-8198
E-mail:	mepp.bd@apa.gov.ab.ca
APA Web site:	www.apaco.ab.ca

Acting Board Secretary

George Buse
Alberta Pensions Administration Corporation

Administrator

Alberta Pensions Administration Corporation

Fund Management

Investment Management Division
Alberta Treasury

Actuary

William M. Mercer Limited

Auditor

Auditor General of Alberta

Notes

Notes

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